

North Ayrshire Council

Annual report on the 2010/11 audit



Prepared for Members of North Ayrshire Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
Background	4
Financial statements 2010-11	4
Financial position	4
Governance.....	5
Best value and performance management	5
Outlook.....	6
Introduction	7
Financial statements	8
Audit opinion	8
Accounting issues	9
Outlook.....	12
Financial position	13
Financial results	13
Capital investment and performance	15
Treasury management	16
Financial planning to support priority setting and cost reductions	17
Outlook.....	19
Best value, governance and performance	21
Best value 2 - follow-up	21
Information and communications technology (ICT).....	23
Performance audit of housing and council tax benefit.....	24
Fraudulent change of bank account	24
National fraud initiative (NFI)	24
Appendix A: Audit reports	26
Appendix B: Action plan	27

Key messages

Background

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011-12 and are making significant savings, however there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of public service reform, financial sustainability, and workforce planning to deliver effective public services.

Financial statements 2010-11

We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2010/11 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Financial position

The general fund recorded a net surplus for 2010/11 of £5.651 million, therefore increasing the balance to £24.595 million as at 31 March 2011. This balance includes earmarked commitments of £19.629 million and an unallocated general fund balance of £4.966 million.

The planned capital expenditure for 2010/11 was £55.449 million, but this was reduced by £4.46 million or 8% during the year, representing slippage on capital projects.

Gross capital expenditure related to the housing revenue account totalled £27.095 million, which was £0.074 million (less than 1%) below the revised budget.

Gross capital expenditure for general fund services in 2010/11 totalled £18.186 million, and by the year end this was £4.96 million (27%) below the revised budget.

Following years of underperformance in the delivery of the planned general fund services capital programme, the council introduced a capital working group in 2009/10 with the purpose of identifying slippage and selecting projects to be brought forward. This group has not had the desired impact, as the council continues to underperform in delivering its planned general fund services capital programme.

The second round of procurement capability assessment (PCA) was undertaken by Scotland Excel in 2011, and the council improved its score from 17% to 27% which is classed as

'conformance'. To help drive further improvement the council undertook a review of procurement activity resulting in an improvement plan which is now being implemented.

As at 31 March 2011, 157 staff had left the council, with a total cost of £1.865 million payable to the Strathclyde Pension Fund in the form of strain on the fund and lump sum costs.

For 2011/12, members approved a budget of £341.228 million incorporating efficiency and other savings of £8.871 million. The 2011/12 budget monitoring report (to 31 July 2011) predicts an annual overspend of £0.018 million.

Governance

The council is improving the way it conducts its business. Elected members who sit on the planning, appeals and licensing committees receive specific training. The improvement service has delivered training on scrutiny and challenge and there have been some changes to the way the scrutiny committee conducts its business, with the elected member who is the relevant portfolio holder now invited to respond to reports on their portfolio area.

The council has revised its corporate governance documents, and intends to carry out a further review following the local government elections in 2012 after the appointment of a new council administration. To date the council has revised its scheme of administration, updated its financial regulations and codes of financial practice, and revised its scheme of delegation to officers and its standing orders relating to contracts. The council is also improving the way it undertakes procurement and has put in place a comprehensive programme of training for all relevant staff on the standing orders for contracts and financial regulations.

The council has developed a member's pack containing the revised corporate governance documents. Internal audit reports are available via the council's intranet system. It has also introduced a councillor's code of conduct as well as a member officer protocol along with associated training from the standards commission.

In addition to the work done to support members in their scrutiny role the council has strengthened the way officers conduct business. For example, the 'capital programme & assets group' has revised the format of its monitoring reports, improving accountability. The change to the format of reporting has improved the management of the council's capital account, allowing it to manage its projects and resources more effectively.

Best value and performance management

The council is making good progress with its best value improvement plan. The council is clearly focusing on performance management and the change agenda. The council's senior management team and elected members demonstrate commitment to improving and promoting a performance management culture. A recent managers' conference focused on performance management. As well as the leader attending the conference to reinforce the performance message, an elected member has been appointed as a performance management champion.

The council has improved the way it reports its performance. The use of, and access for members to, the covalent electronic performance management system provides more comprehensive performance reporting. It also makes available summary reports to the public as well as more comprehensive performance reports on its North Ayrshire performs website. This approach to performance reporting has improved the scrutiny and challenge of service performance.

The council is aware that self-evaluation and continuous improvement is under-developed and not yet embedded in the council. It has identified further work in its improvement plan to take this forward.

Elected members show a commitment to the change agenda and welcome the potential to be involved, seeing self-assessment and the change programme as allowing them more effective control and flexibility in the use of council finances.

The council has more work to do to develop a culture of continuous improvement and behavioural change across services and there is still a need for some services to buy in to the council's improvement agenda. However we noted that the council is improving the way it conducts business and has strengthened its corporate working by providing all levels of management with increased opportunities for cross service collaboration and for identifying and sharing good practice.

The council has increased its capacity through the use of a strategic partner to help progress its change agenda. The chief executive and senior management team are driving the change agenda and recent appointments to this tier have been made to ensure that there are the necessary skills in place to ensure the pace and commitment is maintained.

Outlook

In September 2011 the Scottish Government published its spending review and budget for the three years to 2014/15. The spending cuts allocated to the local government portfolio are (in 2011/12 prices) 4.2% for 2012/13, 9.0% for 2013/14 and 11.3% for 2014/15. The review also recognised that continuing to realise efficiencies will become more challenging in all councils over the longer term.

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for local government, announced by the Scottish Government recently, indicate that significant budget reductions will be required in these years.

The council presented an interim financial management strategy for 2011-16 to the executive on 30 August 2011, and aim to implement a rolling five-year financial planning model by summer 2012.

The key issues for members include the leadership and governance of the change agenda (as part of the wider public service reforms), financial sustainability through the financial planning model, and workforce planning to deliver effective public services for North Ayrshire.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of North Ayrshire Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinion (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of North Ayrshire Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed 'planned management action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to members and the controller of audit and should form a key part of discussions with the scrutiny committee. Reports should be available to the Scottish parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission. The overview report is published and presented to the local government and communities committee of the Scottish parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the whole of government accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.
11. In August 2011 we received an objection to the financial statements under section 101(2) (a) of the local government (Scotland) act 1973. Most of the issues raised in the objection were similar to points raised in previous years. We heard the views of the objector and investigated the issues raised, which primarily related to the common good and trust funds. We concluded that the issues raised were not material to the opinion on the financial statements and did not merit delay of the completion of the audit.
12. In relation to one issue, however, regarding income & expenditure charged to North Ayrshire Leisure Ltd (NALL) for the tennis courts and pavilion at Douglas Park, the objection has been upheld and an adjustment will be made in 2011/12 once an internal investigation has been concluded. The impact of this adjustment on the group accounts is nil, and officers have confirmed that the anticipated impact on the accounts of Largs common good and NALL is not material.

Action point 1

Legality

13. Through our planned audit work we consider the legality of the council's financial transactions. In addition the corporate director (finance & infrastructure) has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant

legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the systems of internal financial control / annual governance statement

14. We are satisfied with the disclosures made in the statement on the systems of internal financial control (SSIFC) and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement reflects the fact that internal and external audit identified weaknesses, particularly in relation to a fraud perpetrated against the council and the payment of goods and services not yet received. We are satisfied that the council has processes in place to address the identified weaknesses, and we expect that the council will be able to demonstrate progress to the newly appointed auditors.
15. In accordance with good practice the council is developing internal processes to enable them to improve the annual governance statement in the 2011/12 financial statements. From 2011/12 the annual governance statement will incorporate the disclosures currently included within the SSIFC. This will enable the council to report publicly on the extent to which it complies with its own code of governance, including how it has monitored the effectiveness of its governance arrangements in the year.

Remuneration report

16. We are satisfied that the remuneration report has been prepared in accordance with the local authority accounts (Scotland) act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

17. Local authorities in Scotland are required to follow the code of practice on local authority accounting in the United Kingdom – a statement of recommended practice ('the code'). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010 code.

Accounts submission

18. The council's unaudited financial statements were submitted to the controller of audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Ordering and certification of goods and services

19. Since the unaudited financial statements were issued officers identified £0.035 million of expenditure, and external audit identified £0.030 million of expenditure, all of which was

incorrectly charged by human resources (HR) to the 2010/11 financial year. This was as a result of non-compliance with financial regulations and the code of accounting practice by officers in HR, and was despite detailed guidance being issued during the year by finance following similar issues in social services last year. Focused substantive testing provided assurance that there were no further issues in the HR department.

Action point 2

20. Internal audit issued a report entitled 'investigation into the purchase of an absence management reporting tool by a council service' in October 2011. The report highlights that 'there is no assurance that best value has been achieved', and confirms that 'financial regulations and related codes of practice were not followed by the service'. The report also highlighted a number of issues including the service not complying with the 'acceptable computer usage policy', not complying with the 'data protection act with regard to the anonymity of the data', and using live data for testing purposes 'which is contrary to the guidance provided by the information commissioner'. The report further notes 'the council could be fined by the information commissioner for breaching the data protection act if data becomes exposed'.

Action point 3

Presentational and monetary adjustments to the unaudited financial statements

21. A small number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice, with the council's uncommitted reserves at 31 March 2011 reducing by £0.167 million. A number of presentational amendments were also processed to improve the disclosures within the financial statements.

Prior year adjustments

22. The 2010/11 financial statements have been prepared in accordance with the 2010 code which is based on international financial reporting standards (IFRS) instead of the previous practice of preparing financial statements under UK generally accepted accounting practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £491.865 million to £527.692 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Pension costs

23. North Ayrshire Council is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'retirement benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced

the council's share of the deficit from £160.519 million last year to £44.063 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Whole of government accounts

24. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was completed by the audit deadline of 30 September.

Group financial statements

25. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including companies, joint ventures and statutory bodies, such as police, fire and valuation boards. North Ayrshire Council consolidates the results of 12 entities into the group financial statements. The overall effect of inclusion of these group entities is to reduce the total net assets by £245.348 million, this is mainly due to the impact of pension liabilities in the police and fire joint boards and other associates.

Trust funds

26. North Ayrshire Council has 83 trust funds. Charitable bodies are required to comply with the requirements of the charities accounts (Scotland) regulations 2006 meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation allowing the council to rely on its existing disclosures for trust funds in the council's financial statements supplemented with additional working papers.
27. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). North Ayrshire Council's submission fell into the 'average' category and the council is currently reviewing arrangements to enable full compliance in the future.

Common good fund

28. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance required the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
29. The guidance note says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance

sheet. An asset register has been prepared by the council that agrees with the values in the common good balance sheet at this time.

30. Following initial work, officers have advised that a title deeds search of all council assets would be time consuming and prohibitively expensive, and therefore may not represent best value to the council. The view of officers is therefore that reviewing the title deeds at point of sale represents 'reasonable steps' for maintaining the fixed asset register. In view of the pressures on council resources it is our opinion that the council's approach is reasonable.

Outlook

Carbon trading

31. In April 2010 a complex system of charging for carbon emissions was introduced by the European Union. The council is now required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council has a carbon management board with a carbon reduction commitment (CRC) sub-group where energy issues are discussed and performance against the energy consumption performance indicator is monitored. A carbon management plan has also been prepared and is currently being updated for new initiatives such as cavity wall insulation. The council will also take part in the Carbon Trust's carbon management project register (CMPR) allowing better quantification of carbon savings and the opportunity to identify any gaps or areas not covered in the plan.
32. The 2010/11 charge for the council was calculated as £0.230 million based on a baseline annual carbon footprint of 19,193 tonnes. Whilst 2010/11 was a practice year and the charge was not actually incurred, it is now expected that the council will have to purchase £0.230 million worth of carbon allowances in June 2012. While the council hope to reduce their carbon emissions it was deemed prudent to project the cost at the same cost as would have been incurred in 2010/11.

Audit appointment for 2011/12

33. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for North Ayrshire Council but a different audit team will be in place.

Financial position

34. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
35. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
36. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

37. In 2010/11, North Ayrshire Council spent £461.428 million on the provision of public services, resulting in an accounting surplus of £50.574 million. The budget for 2010/11 was based on Band D council tax of £1,152. The budget did not assume any use of the general fund.

Budgetary control

38. The net cost of general fund services across the council was £280.964 million, an underspend of £9.332 million against the budget. Service budgets were underspent in the year mainly as a result of improved efficiencies, the impact of pay constraint, deferment of initiatives and the early implementation of approved 2011/12 savings.

Financial position

39. The general fund recorded a net surplus for 2010/11 of £5.651 million. This is comprised of a net service underspend of £47.482 million, adjustments between accounting basis and funding basis under regulations of £43.413 million, and transfers to the general fund of £1.582 million. The general fund balance has therefore increased to £24.595 million as at 31 March 2011. This balance is made up of earmarked commitments of £19.629 million leaving an unallocated general fund balance of £4.966 million which is slightly short of the council's targeted minimum uncommitted general fund balance of £5.118 million. Officers confirmed that this will be kept under review.
40. Exhibit 1 shows the balance in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing,

maintaining, replacing and renewing assets. The council's funds at 31 March 2011 totalled £52.712 million, an increase of £8.397 million on the previous year.

Exhibit 1: Useable reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	18.944	24.595
Housing Revenue Account	3.672	7.811
Repair and Renewal Fund	8.342	8.348
Capital Fund	9.904	8.619
Insurance Fund	3.453	3.339
Total	44.315	52.712

Source: North Ayrshire Council 2010/11 financial statements

41. The council increased its earmarked reserve within the general fund for equal pay from £1.500 million to £3.800 million in-year. This is an estimate, and has been included following identification of potential new equal pay claims during the year.
42. An earmarked reserve of £5.173 million for the council's change and reform programme (the 'change fund') showed no movement in-year, while a further £2.000 million of the general fund balance has been earmarked for service re-design investment from the balance available at 31 March 2011. The change fund was not reduced in creating an additional provision for termination benefits of £2.153 million, which has been recognised through expenditure in the 2010/11 financial statements.
43. A suite of financial indicators has been developed in consultation with the CIPFA directors of finance working group. The indicators assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the corporate director (finance & infrastructure) will consider reporting these indicators as part of the financial statements.
44. For 2010/11 Audit Scotland is compiling financial indicators, however they are not yet available as they are based on the audited financial statements for all councils. The indicators will be issued to the council in due course and may be published in the local government overview report for 2010/11.

Housing revenue account

45. The housing revenue account (HRA) balance increased by £4.139 million for financial year 2010/11. This was against a budgeted deficit of £1.475 million. The in-year underspend is

mainly due to a refund of surpluses and savings in recharges from building services, as well as budget savings in loans costs and central support charges.

46. When the in-year surplus of £4.139 million is added to the HRA balance brought forward from 2009/10, it results in an accumulated surplus of £7.811 million. Of the surplus at 31 March 2011, the council has allocated £2.196 million to fund the 2011/12 revenue budget, with the balance being used to fund the new council house building programme.
47. The council are working towards meeting the enhanced Scottish Housing Quality Standard by 2015, and officers have advised that 69% of the council's housing stock had achieved the target by 15 September 2011.

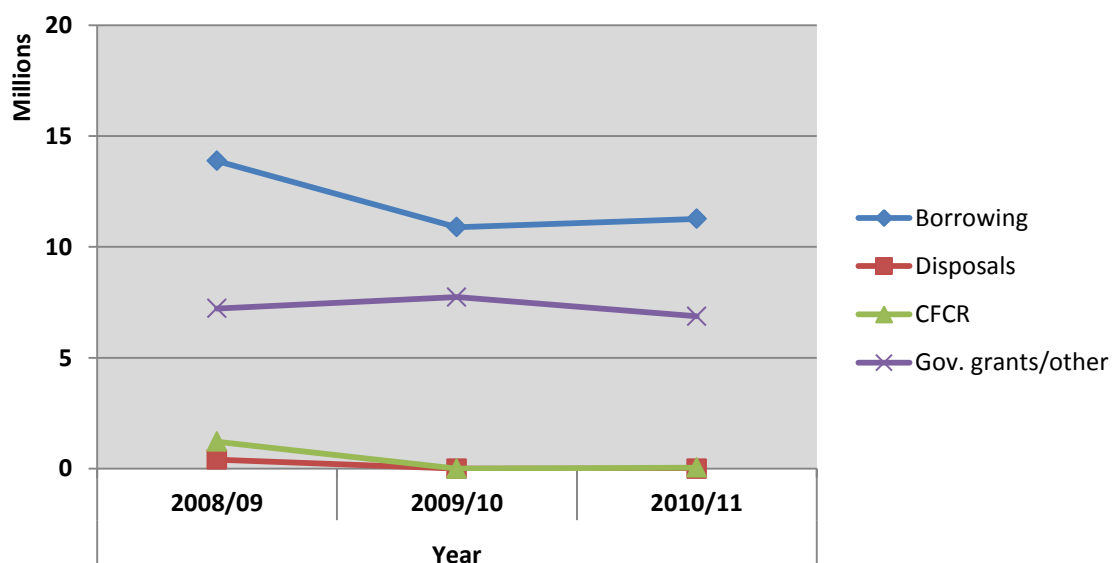
Capital investment and performance

48. The 2010/11 financial statements detail capital expenditure of £45.281 million split between the housing revenue account and the general services programme. The housing revenue account includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. The general services programme includes investments on improving primary and secondary schools, open space and sports facility projects, and the construction of two new children's units.
49. The planned capital expenditure for 2010/11 was originally £55.449 million, but this was reduced by £4.46 million or 8% during the year, representing slippage on capital projects.
50. Gross capital expenditure for general fund services in 2010/11 totalled £18.186 million, and by the year end this was £4.96 million below the revised budget.
51. Gross capital expenditure related to the housing revenue account totalled £27.095 million, which was £0.074 million below the revised budget.
52. Following years of underperformance in the delivery of the planned general services capital programme, the council introduced a capital working group in 2010/11 with the purpose of identifying slippage and selecting projects to be brought forward. This group has not yet had the desired impact, as the council continues to underperform in delivering its planned general services capital programme.

Action point 4

53. Exhibit 2 shows the sources of finance for general fund capital expenditure in 2010/11.

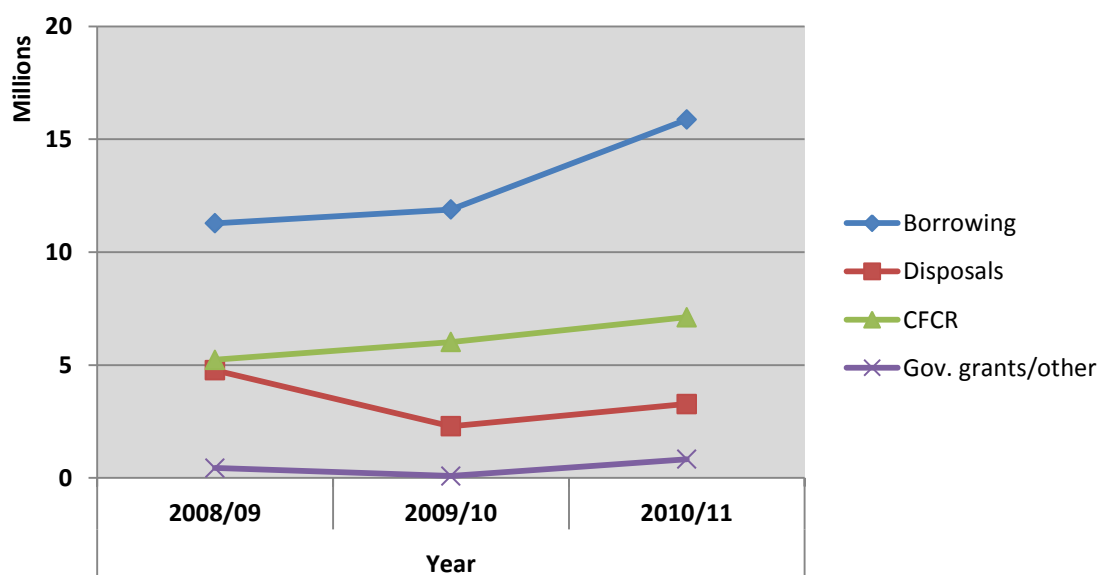
Exhibit 2: Sources of finance for general fund capital expenditure 2007/08 - 2010/11



Source: North Ayrshire Council 2007/2008 to 2010/2011 financial statements

54. Exhibit 3 shows the council achieved capital receipts of £3.276 million (£2.290 million in 2009/10) for the housing revenue account, the majority of which arose from council house sales.

Exhibit 3: Sources of finance for housing revenue account capital expenditure 2007/08 - 2010/11



Source: North Ayrshire Council 2007/2008 to 2010/2011 financial statements

Treasury management

55. As at 31 March 2011, North Ayrshire Council held cash and temporary investments totalling £24.548 million (£8.423 million at 31 March 2010). This increase is due to increased short-

term deposits and the forecast recovery of deposits in Icelandic banks as advised by the Scottish government. The council's borrowing has increased by £2.842 million to £291.171 million as at 31 March 2011.

56. The current economic climate means that interest rates on borrowing are low. The council's treasury management strategy includes the option to borrow to take advantage of these low interest rates, however this option was not used in 2010/11.
57. North Ayrshire Council had deposits of £10m with Glitnir and £5m with Landsbanki when the Icelandic banking system collapsed in October 2008. All monies within the various Icelandic banks are subject to administration and receivership processes administered under Icelandic law. Recovery of the council's funds is subject to various risks including confirmation that the council's deposits are preferential creditors. The Icelandic courts have already confirmed this status, but it is subject to appeal. There are also exchange rate implications associated with the value of assets recovered by the resolution committee.
58. The financial statements assume a recovery rate with Landsbanki of 94.86% spread over 8 years to December 2018. The assumed recovery rate is based on local authorities maintaining their status as priority creditors. For Glitnir the estimated recovery rate for priority creditors remains at 100%, and guidance suggests that the earliest date by which payment could be made is December 2011.
59. The total impairment loss for the two deposits is currently estimated to be £2.545 million. However failure to secure preferential creditor status would have a significant impact upon the recovery of the council's deposits and would result in a larger impairment having to be recognised in the council's accounts. The council has earmarked £2 million of the general fund balance for use if the actual dividend is less than forecast, or if preferential creditor status is not upheld.

Action point 5

Financial planning to support priority setting and cost reductions

60. In 2010/11, in response to the challenging funding position, the council implemented a change programme focusing on service development and improvement. The change programme is intended to set a vision for the council for tackling the ongoing economic downturn and reduction in funding.
61. Our best value 2 report, issued in March 2011, welcomed the change programme while acknowledging that it is in the early stages of implementation. The following paragraphs provide a summary of progress to date in key areas which we have considered as part of our audit. A follow-up review focusing on developments in performance management & improvement and governance & accountability was undertaken in August 2011, and our findings from this review are detailed on page 21.

Asset management

62. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property and other assets. While the current economic situation has implications for the management of the council's property assets, concerns have been raised with regards to performance in this area over a number of years.
63. As identified in our 2009/10 report to members, the council implemented actions to address the ongoing lack of progress with regards to asset management. A working group ('our future working environment') was created to develop an asset strategy, and which aimed to provide 'a plan to rationalise the property portfolio, thus reducing running costs and obtaining capital receipts for the council'.
64. Despite the implementation of this working group there has been little demonstrable progress and asset management plans have not yet been developed. The council's asset management strategy was approved by the executive in March 2011. Officers have advised that good progress is being made on developing the asset management plans with a progress report being considered by the executive in September 2011.

Action point 6

Procurement

65. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. In 2010 the council scored 27% which is classed as 'conformance' and demonstrates improvement on the 2009 score of 17%.
66. The main improvement areas were in procurement leadership and governance, procurement commodity / project strategies & collaborative improvement, and people. The main weaknesses identified related to an inconsistent approach to procurement across the organisation.
67. The council's corporate procurement unit and strategic partner (Impower) presented a report to the council change management group (CCMG) on 13 June 2011. In preparing the report Impower met with Scotland Excel, as well as other local authorities to identify best practice and enable benchmarking.
68. The review covered policies & procedures; structures & organisation; and processes & systems used for procurement, and included an examination of the benefits of a centralised procurement function.
69. Following its meeting on 13 June 2011, the CCMG requested that officers present further details of the proposed changes to the CMT. An improvement plan is now being taken forward, and while the procurement manager has advised that any actions resulting from this process may be too late to impact on the next procurement capability review in late 2011, it is

expected that it will help the corporate procurement unit to demonstrate significant improvement in time for the 2012 PCA.

Regulatory services

70. The council, along with the other two Ayrshire councils, has set up a shared services board to develop shared service initiatives. The head of HR sits on the board. The board reports to the shared services executive comprising leaders and chief executives of all three Ayrshire councils together with the chair and chief executive of NHS Ayrshire and Arran. The board is currently considering the potential for improved effectiveness and efficiency through alternative models of sharing road services across the Ayrshire councils beyond the joint working that is currently in place. Proposals to develop a shared out of hours social work services are advanced and include all three councils together with NHS Ayrshire and Arran.
71. The three Ayrshire councils have been working together over the past three years to put in place a shared service model to deliver regulatory services. A joint board model was considered but we are disappointed to report that the three councils have not yet been able to resolve the complex legal issues to allow the joint service to progress. The revised deadline of April 2011 has been adjusted to reflect further on legal advice and on council decisions. It is important that all partners work to identify and resolve the many potential issues around shared service models to ensure optimal outcomes are achieved for local residents.

Action point 7

Workforce reduction

72. As part of the council's ongoing change programme, steps have been taken to reduce costs through a voluntary early release arrangement. The scheme was introduced in 2010, and as at 31 March 2011 157 staff had left the council, with a total cost of £1.865 million payable to the Strathclyde Pension Fund in the form of strain on the fund and lump sum costs. From 1 April 2011 to 30 September 2011 a further 21 members of staff left the council under the voluntary severance scheme. A further 7 staff have release dates between 1 October 2011 and 30 June 2012, while 6 staff have not yet agreed their release date. The council should continue to monitor the impact of the reduction in workforce on service provision.

Outlook

2011/12 budget

73. The council, like all public sector organisations, faces a very challenging financial climate. The level of budget savings required in 2011/12 are far in excess of those required in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

74. For 2011/12 members approved a budget of £341.228 million incorporating efficiency and other savings of £8.871 million. The 2011/12 budget monitoring report (to 31 July 2011) predicts an annual overspend of £0.018 million.
75. The budget reduction measures included within the budget were detailed for each service department and included specific service programmes and corporate savings activities. The budget reduction themes include reviews of management and staff structures and targeted efficiencies arising from improvements in the delivery of council services.

Financial forecasts beyond 2011/12

76. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for local government that were announced by the Scottish Government recently indicate that significant budget reductions will be required in these years.
77. The council presented an interim financial strategy for 2011-16 to the executive on 30 August 2011. The objectives of this strategy included consolidating existing financial plans and documents, and establishing a baseline financial position that will be used to further develop the council's financial strategy. The council aim to implement a rolling five-year financial planning model by summer 2012. We expect that the council will be able to demonstrate progress in this area to the newly appointed auditors.

Action point 8

Best value, governance and performance

Best value 2 - follow-up

78. The second audit of best value and community planning of North Ayrshire Council was undertaken in September 2010 and the report published in March 2011. This identified that the council should strengthen governance structures, particularly regarding adherence to financial regulations and standing orders. The Accounts Commission's findings also urged the council to make progress in establishing sufficiently robust performance management arrangements to support elected members in their scrutiny role.
79. The assurance and improvement plan (AIP) 2011-14 identified two areas of significant risk, governance and accountability and performance management and improvement. As a result of this risk assessment it was agreed that these areas would be reviewed and reported through the annual members report, along with an update on the council's progress with its best value improvement plan.

Action point 9

Performance management and improvement

80. The council is making good progress with its best value improvement plan. The plan lists 102 actions across the eight improvement areas identified in the best value report, to help deliver its improvement agenda; this was agreed at council on the 16th March 2011. In its latest report (August 2011) 86 of these actions are reported as complete or on target, 12 are slightly adrift of target, and 4 are significantly adrift of target. Since the August report there has been further work carried out and there has been progress on these areas.
81. The council is clearly focusing on performance management and the change agenda. The council's senior management team and elected members demonstrate commitment to improving and promoting a performance management culture. A recent managers' conference focused on performance management. As well as the leader attending the conference to reinforce the performance message, an elected member has been appointed as a performance management champion.
82. The council agreed its performance management strategy in August 2011, in which it has set an ambitious vision for performance management: 'By 2014, the council will have sector-leading performance management systems and a supporting performance culture in place'. The strategy is a statement of principles around performance management. The council should use this as a basis for developing a more comprehensive performance management framework and integrating the various performance tools that it has in place.
83. The council has improved the way it reports its performance. The use of, and access for members to, the covalent electronic performance management system provides more

comprehensive performance reporting. It also makes available summary reports to the public as well as more comprehensive performance reports on its North Ayrshire performs website. This approach to performance reporting has improved the scrutiny and challenge of service performance.

84. The council has identified in its improvement plan further work that it still needs to do to develop its approach to performance management, in particular its work with services around key performance indicators and improved documentation and evidence to support performance.
85. The council is aware that self-evaluation and continuous improvement is under-developed and not yet embedded in the council. It has identified further work in its improvement plan to take this forward.
86. Elected members show a commitment to the change agenda and welcome the potential to be involved, seeing self-assessment and the change programme as allowing them more effective control and flexibility in the use of council finances.
87. The council still has more work to do to develop a culture of continuous improvement and behavioural change across services. There is still a need for some services to buy in to the council's improvement agenda. However the council is improving the way it conducts business and has strengthened its corporate working by providing all levels of management with increased opportunities for cross service collaboration and for identifying and sharing good practice.
88. The council has increased its capacity through the use of a strategic partner to help progress its change agenda. The chief executive and senior management team are driving the change agenda and recent appointments to this tier have been made to ensure that there are the necessary skills in place to ensure the pace and commitment is maintained.
89. In taking its change agenda forward and to maintain its momentum the council should review its plans, for both its best value improvement plan and its performance management strategy to ensure that the timescales and implementation dates are realistic and achievable and contribute to the delivery of the council's improvement programme.

Governance and accountability

90. The council is improving the way it conducts its business. Elected members who sit on the planning, appeals and licensing committees receive specific training. The improvement service has delivered training on scrutiny and challenge. There have been some changes to the way the scrutiny committee conducts its business, with the elected member who is the relevant portfolio holder now invited to respond to reports on their portfolio area.
91. The council has revised its corporate governance documents, and intends to carry out a further review following the local government elections in 2012 after the appointment of a new council administration. To date the council has revised its scheme of administration, updated its financial regulations and codes of financial practice, and revised its scheme of delegation to officers and its standing orders relating to contracts. The council is also improving the way it

undertakes procurement and has put in place a comprehensive programme of training for all relevant staff on the standing orders for contracts and financial regulations.

92. The council has developed a member's pack containing the revised corporate governance documents. Internal audit reports are available via the council's intranet system. It has also introduced a councillor's code of conduct as well as a member officer protocol along with associated training from the standards commission.
93. In addition to the work done to support members in their scrutiny role the council has strengthened the way officers conduct business. For example, the capital programme & assets group has revised the format of its monitoring reports, and introduced a business case approach for the consideration of capital bids. The change to the format of reporting has improved the management of the council's capital account, allowing it to manage its projects and resources more effectively. The council has also commenced a significant training programme on financial regulations and standing orders relating to contracts. Officers are required to sign a certificate confirming their understanding of these regulatory documents.

Information and communications technology (ICT)

94. In June 2011, John McClelland's review of ICT in the public sector in Scotland stated that a 'standalone and self-sufficient operating mode is no longer affordable, and organisations should commit to an era of sharing in ICT that will not only offer better value but also meet the needs of individual organisations and their customers'. The council is currently refreshing its ICT strategy, and officers have advised that opportunities to share systems will be investigated as they arise.

Data management follow-up

95. Our review of data management noted that the council has put in place operational processes to improve data management, including encrypting all laptops. The ICT department developed its own web-based information asset register, and made several enhancements to the product during 2010/11. The council has shared the application with some other local authorities, and NHS 24 and the Scottish Government have also shown an interest. We understand that the improvements to the application have been well received by the other users.

Website audit

96. The council's website provides many online services to residents. We found the website easy to use and navigate, and noted good practice in the use of social media to communicate information. The council recognises the importance of the website as a method of communicating with residents and are planning to review their website strategy. As with all strategies it is important that realistic success measures are defined and set.

Performance audit of housing and council tax benefit

97. Our performance audit of housing and council tax benefit reported that the council's benefits service had achieved considerable success in a number of areas. It highlighted that the speed of processing performance during 2009/10 placed it among the top performers in Scotland, and that the extensive work done by the service to meet the needs of users was recognised by 'customer service excellence' accreditation in August 2010.
98. In addition, the active promotion of an anti-fraud culture by the service's benefits investigation team resulted in the team being awarded the 'institute of revenues rating & valuation' (IRRV) Scottish performance award for 2010 and being short-listed, along with only two other fraud teams, for the UK anti-fraud team of 2010.
99. We also reported that the service achieved continuous improvement in: the speed of processing benefits claims and change events; its intervention activity to promptly identify potential changes to benefits entitlement; benefit overpayment recovery; and the number of sanctions it has applied in cases where benefit fraud has been proven.
100. There were two areas where the risks identified during our previous risk assessment had not been fully addressed, and this was in terms of accuracy and reconsiderations. Our report concluded, however, that the service is performing at the upper end of Scottish authorities and the risks identified are designed to help it become even more effective and efficient.

Fraudulent change of bank account

101. In October 2010 it was identified that a well-known construction company's bank details had been changed following receipt of a fraudulent letter, and four separate payments totalling £0.271 million had been made to the company before the fraud was identified. The council's monitoring officer reported in December 2010 and highlighted a number of issues and areas for improvement. The corporate director (finance & infrastructure), as section 95 officer, also presented a report to the executive advising of the new procedures in place to minimise the potential for fraudulent activities in the council. This report contained an action plan detailing the steps being taken by the council and the planned completion date for each action.
102. In our confidential management letter issued in March 2011, and considered by the scrutiny committee on 20 June 2011, we concurred with the conclusions in the monitoring officer's report.
103. We further highlighted that the action taken by management following identification of the fraud was proper, and appeared to ensure that no similar frauds were perpetrated against the council. The prompt action by management also enabled £42,271.49 to be recovered, and there remains a possibility that further money could be returned.

National fraud initiative (NFI)

104. The national fraud initiative (NFI) was rolled out in Scotland as part of 2004/05 audits, principally the audits of councils and police and fire boards. The Scottish Public Pensions

Agency, the Student Awards Agency for Scotland, and Audit Scotland itself also provided data for the exercise. The exercise was expanded for the 2006/07 NFI by the inclusion of health bodies and a wider range of data-sets.

105. Since then, there has been an exercise covering 2008/09, which was reported, and another covering data from 2010/11, which is currently under way. Data was provided by participating authorities in late 2010, and the resultant matches are being examined with the expectation of a national report in 2012.
106. The council's NFI data showed a total of 2,611 matches, of which 737 were classed as matches recommended for investigation. The council has processed 2,109 matches with 7 in progress. From the matches processed to date, a total of 15 frauds have been discovered with a total outcome of £0.047 million. No errors have been discovered.
107. Cumulative outcomes have exceeded £58 million for Scotland and £660 million for the United Kingdom.
108. Further reports will be made to members in due course as the exercise progresses.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to scrutiny committee
Annual audit plan	4 February 2011	28 March 2011
Performance audit of housing and council tax benefit	12 November 2010	23 May 2011
Review of adequacy of internal audit	17 December 2011	Not required
The audit of best value and community planning (best value 2)	10 March 2011	16 March 2011 (presented to North Ayrshire Council)
Fraudulent change of bank account - confidential management letter	14 March 2011	20 June 2011
Website overview report	28 April 2011	6 June 2011
Shared risk assessment / assurance and improvement plan	16 May 2011	24 May 2011 (presented to Executive of NAC)
Review of purchasing and procurement	17 June 2011	15 August 2011
Review of main financial systems	2 August 2011	15 August 2011
Follow-up of data management audit	11 August 2011	Not yet presented
Report to those charged with governance on the 2010/11 audit	21 September 2011	26 September 2011
Audit opinion on the 2010/11 financial statements	29 September 2011	Not yet presented

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	12	<p>Objection to the financial statements</p> <p>An objection relating to income & expenditure charged to North Ayrshire Leisure Ltd (NALL) for the tennis courts and pavilion at Douglas park was upheld. An adjustment is to be made in 2011/12 once an internal investigation has been concluded. The anticipated impact on the accounts of Largs common good and NALL is not material.</p>	<p>Officers have investigated this issue and confirmed that additional income of £5k is due to Largs Common Good. This adjustment has been made in the 2011/12 accounts.</p> <p>The impact of the adjustment on the group accounts will be nil.</p>	Head of Finance	October 2011
2	19	<p>Ordering and certification of goods and services</p> <p>Since the unaudited financial statements were issued expenditure totalling £0.065 million was identified as incorrectly charged by human resources (HR) to the 2010/11 financial year. This was as a result non-compliance with financial regulations and the code of accounting practice by officers in HR.</p> <p>Given similar issues were identified in 2009/10 in</p>	<p>The errors identified were corrected in the audited financial statements. A training course is currently being rolled out across services to raise awareness of financial regulations and standing orders relating to contracts, and officers are required to sign a declaration that they understand the requirements on them.</p>	Head of Finance/ Solicitor to the Council	December 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		social services, there is a risk that officers in services are not routinely complying with financial guidelines.			
3	20	<p>Purchase of an absence management reporting tool by human resources (HR)</p> <p>Internal audit have identified that best value may not have been achieved in the purchase of an absence management reporting tool by HR. The report also identifies non-compliance with the council's acceptable computer usage policy, non-compliance with the data protection act, and highlights that live data was used for test purposes without appropriate permission.</p> <p>There is a risk that the council could be fined by the information commissioner should any of this data become exposed.</p>	An agreed action plan is included within the report to address the weaknesses identified.	Chief Executive	January 2012
4	52	<p>Capital performance</p> <p>The council again failed to deliver its planned general services capital programme in 2010/11. This is despite the introduction of a capital</p>	CPAG is developing its approach to establish robust processes and a corporate approach to the delivery of the Council's Asset	Corporate director (Finance and Infrastructure)	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>working group to address the ongoing issue</p> <p>There is a risk of continued slippage which may adversely impact on service provision.</p>	Management Plans.		
5	59	<p>Icelandic banks</p> <p>The council may fail to recover expected amounts from deposits in Icelandic banks.</p> <p>There will be increased pressure on council budgets should these funds not be recovered.</p>	The position will continue to be monitored. Provision has already been made for £2m in the annual accounts and future provisions will be made as the process develops if necessary.	Corporate director (Finance and Infrastructure)	March 2012
6	64	<p>Asset management</p> <p>The council do not have robust asset management plans in place. This is despite the management action in our 2010 members report stating that the strategy would be developed by June 2011.</p> <p>The council may be unable to effectively manage the assets resulting in poor value for money for taxpayers.</p>	The council's asset management strategy was approved by the Executive in March 2011. Good progress is being made in developing the detailed asset management plans which support this. Final plans will be available by December 2011.	Corporate director (Finance and Infrastructure)	March 2012
7	71	<p>Regulatory services</p> <p>The revised deadline for the adoption of the regulatory shared service model of April 2011 has been missed, and there is currently no further revised deadline for the</p>	The council will continue its efforts to resolve the complex legal issues and so allow the joint service to progress	Solicitor to the council	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>completion of this shared service.</p> <p>There is therefore a risk that optimal outcomes, service improvements and efficiency gains are not achieved.</p>			
8	77	<p>Financial planning</p> <p>Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.</p> <p>There is a risk that the standard of service provision will reduce as budget reductions take effect.</p>	<p>An interim financial strategy for 2011-16 was presented to the executive on 30 August 2011, and a rolling five-year financial planning model will be implemented by summer 2012.</p>	<p>Corporate director (Finance and Infrastructure)</p>	<p>June 2012</p>
9	79	<p>Best value 2 - follow-up</p> <p>The council should continue to implement the actions identified in the best value improvement plan.</p>	<p>Quarterly updates will continue to be provided to the CMT, executive and scrutiny committees on progress in implementing the best value improvement plan.</p> <p>The Performance Strategy will be developed to show linkages between the various performance management tools/ workstreams</p> <p>The 2012/13 performance management/ BV</p>	<p>General Manager (Policy & Service Reform)</p> <p>General Manager (Policy & Service Reform)</p> <p>General Manager (Policy & Service Reform)</p>	<p>March 2012</p> <p>March 2012</p> <p>March 2013</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			action plan will be developed and implemented to ensure continuity of the relevant actions in the 2011/12 BV2 improvement plan	& Service Reform)	